

Mohokare Municipality

Budget 2013/14 To 2015/16

Medium Term Revenue and
Expenditure Framework

Table of Contents

Table of Contents	2
Glossary	3
PART 1 – ANNUAL BUDGET	5
Section 1 – Executive Summary	10
Section 2 – Budget presentation	10
PART 2 – SUPPORTING DOCUMENTATION	
Section 3 – Annual budget tables	15
Section 4 – Overview of annual budget process	15
Section 5 – Overview of alignment of the annual budget with the Integrated Development Plan	16
Section 6 – Budget related policies	18
Section 7 – Overview of budget funding	19
Section 8 – Councillor allowances and employee benefits	19
Section 9 – Monthly targets for revenue, expenditure and cash flow	20
Section 10 – Annual budgets and service delivery and budget implementation plans – internal departments	20
Section 11 – Legislation compliance status	22
Section 12 – Other supporting documents	26
Section 14 – Municipal manager’s quality certification	27
Annexure 1 – Main Budget Tables Tables A1 to A10, as completed	
Annexure 2 – Tariffs, Charges and Fees for 2013/2014	
Annexure 3 - Municipal Budget Circular 66 & 67 for the 2013/14 MTREF	
Annexure 4 - Policies	

Glossary

Adjustments Budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other municipalities.

AFS- Annual Financial Statements

Budget – The financial plan of the Municipality.

Budget Related Policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

Cash Flow Statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

CFO - Chief Financial Officer

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality

KPI's – Key Performance Indicators. Measures of service output and/or outcome.

MFMA – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

NT – National Treasury

Net Assets – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates

to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or

Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

R&M – Repairs and maintenance on property, plant and equipment.

SCM – Supply Chain Management.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure – Generally, spending without, or in excess of, an approved budget.

Virement – A transfer of budget.

Virement Policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

Vote – One of the main segments into which a budget is divided. In Mohokare Municipality this means at directorate level.

PART 1 ANNUAL BUDGET

Section 1 – Executive Summary

Introduction

In assisting in the compilation of this MTREF, National Treasury Circulars No. 66 and 67 were used where necessary.

Background

In the background to the 2010/11 MTREF concern was raised about “the failure of national government to understand that the financing of local government is archaic and totally unsuitable for the 21st century. Sadly, there is little that has changed in the last year and clearly there is little that is going to change in the forthcoming year”.

Remarkably however, there has been some comment on this front but sadly for all the wrong reasons. The Minister for Cooperative Governance and Traditional Affairs, whilst having to deal with the billing debacle in Johannesburg, raised the prospect of SARS taking over the billing of municipal services. Whilst there is little chance of this happening in respect of water and electricity, the issue of billing and collecting assessment rates should be looked at more closely if only because it would force municipalities to ensure that property valuations become fully market related and comparable— something that one would have thought that National Treasury would welcome.

The Minister’s comments also raise the issue that the services of water and electricity need to be regionalised and removed from local government into Boards, simply because the capital costs required to keep them functioning are well beyond the capability of most municipalities. The water supply issue in our area has been addressed by the Rouxville bulk water project.

Budget Summary

The budget for 2013/14 contains provision of R5.9m for free basic services. The budget leans strongly on a vigorous campaign to ensure that all revenues are recovered. It is imperative that the indigent in our community receive the benefits they are due, and to ensure that those who can afford to pay, do in fact pay.

Economically Mohokare remains weak. Fundamentally we are an agricultural/tourist region which exists near the Lesotho border.

Financial position and MTREF strategy

The financial position of Mohokare Municipality is such that the funding of the service delivery program depends on a steady flow of cash. The salary component must be curtailed, and steps to be taken to ensure that there is not a waste of man-power anywhere.

Cash Flow

Mohokare's budget is driven to ensure the cash flow is protected as far as possible. That often means hard decisions that perhaps are often not appreciated or liked by Councilors and, more especially, staff. Councilors have been supportive in ensuring the survival of the municipality and understand the approach taken. No Council may borrow its way out of trouble as it could in the past. Today if a Council gets into financial difficulties then National Treasury and provincial governments step in. It is believed that there are between 30-50 authorities nation-wide under "administration" in this way. Obviously this is not a route to follow as all that can happen is that staff will continue to get paid but no services delivered.

This budget is premised on an 83% payment level. This is based on the premise of drastic improvement in the management of debt. The recovery of arrears will be one of the projects to ensure the rendering of services. Our credit control actions are not harsh but measured and targeted and backed up by good data management.

Capital Budget

The capital budget for 2013/14 will total R44.8 million of which R42.9 million is funded from national and provincial grants and R1.9 million from internally generated funds. The various projects are set out in 'Annexure 2: Supporting Table SA36'.

Operating Expenditure

In his 2011-12 budget speech the Minister of Finance stated "the vision for the future is abundantly clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high".

This approach was reinforced in the municipal budget circular regarding this budget which re-emphasised the role of local government:

- to support decent employment through inclusive economic growth;
- to create an enabling environment for investment by streamlining planning application processes;
- to ensure proper maintenance and rehabilitation of essential services infrastructure;
- to ensure proper implementation of the EPWP at municipal level;
- to design service delivery processes to be labour intensive;
- to improve procurement systems to eliminate corruption and ensure value for money and
- to utilise community structures to provide services.

This budget continues the emphasis and drive begun internally last year to promote job creation. In addition Council now requires that tenderers must employ local labour as far as possible.

OPERATING EXPENDITURE

The schedule Finance performance follows, and the expenditure is adapted to indicate the relation between the various expenditure items.

FS163 Mohokare - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description R thousand	Ref	2013/14 Medium Term Revenue & Expenditure Framework			TOTAL % OF OPERATING EXPENDITURE		
		Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Expenditure By Type	-						
Employee related costs	2	49 016	52 768	55 612	38.3%	38.9%	37.7%
Remuneration of councillors		2 963	3 153	3 323	2.3%	2.3%	2.3%
Debt impairment	3	4 748	5 004	5 274	3.7%	3.7%	3.6%
Depreciation & asset impairment	2	21 952	23 137	24 387	17.1%	17.1%	16.5%
Finance charges		537	557	577	0.4%	0.4%	0.4%
Bulk purchases	2	16 000	17 280	18 662	12.5%	12.7%	12.6%
Other materials	8	7 544	8 136	12 059	5.9%	6.0%	8.2%
Contracted services		312	314	316	0.2%	0.2%	0.2%
Transfers and grants		-	-	-	0.0%	0.0%	0.0%
Other expenditure	4, 5	25 052	25 331	27 369	19.6%	18.7%	18.5%
Loss on disposal of PPE							
Total Expenditure		128 124	135 680	147 580	100%	100%	100%

The expenditure on salaries is, as a result of the consultation process and corresponding review 38.3% of the operating expenditure. This remains a matter of concern, as our own generated funds are less than the salary bill, and as a result we are reliant on the equitable share to fund the balance of the salary bill.

The provision for debt impairment, which is the budgeted amount that will not be received, amounts to R4.7 million.

To counter this, it is budgeted that an amount of R10 million will be received in respect this and previous years outstanding amounts. It is estimated that of the R84 million outstanding, R45 million could be considered collectable. The necessary urgency will be given to implementing the relevant policy.

OPERATING REVENUE

Local government is in essence funded from three sources. Assessment rates, revenues from trading services and transfers from national government.

Here follows a schedule setting out the various revenue components of the operating budget.

Description	Ref	2013/14 Medium Term Revenue & Expenditure Framework			TOTAL % OF OPERATING EXPENDITURE		
		Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
R thousand	1						
Revenue By Source							
Property rates	2	8 481	9 172	10 136	7.3%	7.6%	8.0%
Property rates - penalties & collection charges		2	3	3			
Service charges - electricity revenue	2	20 000	22 000	24 200	17.3%	18.2%	19.0%
Service charges - water revenue	2	7 336	7 662	8 315	6.4%	6.3%	6.5%
Service charges - sanitation revenue	2	5 369	5 621	6 268	4.6%	4.6%	4.9%
Service charges - refuse revenue	2	3 171	3 273	3 664	2.7%	2.7%	2.9%
Service charges - other					0.0%	0.0%	0.0%
Rental of facilities and equipment		2 469	2 716	2 988	2.1%	2.2%	2.3%
Interest earned - external investments		2	3	3	0.0%	0.0%	0.0%
Interest earned - outstanding debtors							
Dividends received		9	10	11	0.0%	0.0%	0.0%
Fines		3 000	4 100	2 870	2.6%	3.4%	2.3%
Licences and permits		0	0	0	0.0%	0.0%	0.0%
Agency services					0.0%	0.0%	0.0%
Transfers recognised - operational		59 125	59 311	61 143	51.2%	49.0%	48.0%
Other revenue	2	6 514	7 166	7 882	5.6%	5.9%	6.2%
Gains on disposal of PPE							
Total Revenue (excluding capital transfers and contributions)		115 480	121 036	127 484	100.0%	100.0%	100.0%

ALLOCATION OF SURPLUS AND RECOGNISING OF CAPITAL TRANSFERS

Surplus/(Deficit)	(12 644)	(14 645)	(20 096)
Transfers recognised - capital	36 743	40 764	49 419
Contributions recognised - capital	(42 883)	(45 578)	(49 419)
Contributed assets	(1 933)	(2 043)	(2 153)
Surplus/(Deficit) after capital transfers & contributions	(20 717)	(21 501)	(22 249)
Taxation			
Surplus/(Deficit) after taxation	(20 717)	(21 501)	(22 249)
Attributable to minorities			
Surplus/(Deficit) attributable to municipality	(20 717)	(21 501)	(22 249)
Share of surplus/ (deficit) of associate			
Surplus/(Deficit) for the year	(20 717)	(21 501)	(22 249)
Surplus/(Deficit)	(12 644)	(14 645)	(20 096)
Transfers recognised - capital	36 743	40 764	49 419
Contributions recognised - capital	(42 883)	(45 578)	(49 419)
Contributed assets	(1 933)	(2 043)	(2 153)

It is noted that the budget and the movements within the 3 years reflects a balanced budget.

The known income & expenditure as set out in the budget is recognized.

National, Provincial & District priorities

The National, Provincial and District Context

The Municipality's budget must always be seen within the context of the policies and financial priorities of National and Provincial government. All spheres of Government are partners in meeting the service delivery

challenges we face in Mohokare and the municipality cannot meet these challenges alone. South Africa has achieved considerable success in reaching the current level of macroeconomic stability, but our own local economy is still plagued with high levels of unemployment and poverty.

The following table shows the allocations to Mohokare Municipality as set out in the National Division of Revenue Act of 2012 in the MTREF period;

EQUITABLE SHARE	50 117 000	50 828 000	52 400 000
Equitable share - Remuneration of Councillors	1 756 000	2 037 000	2 114 000
TOTAL EQUITABLE SHARE	51 873 000	52 865 000	54 514 000
NT Grant - FMG	1 650 000	1 800 000	1 950 000
NT Grant - MSIG	890 000	934 000	967 000
NT Grant - EPWP	1 000 000		
Prov Grant - Man Remuneration	3 711 850	3 711 850	3 711 850
Conditional Grants - Revenue	7 251 850	6 445 850	6 628 850
DORA Capital - MIG	17 887 000	17 471 000	18 338 000
DORA Capital - Bulk	23 000 000	25 000 000	33 000 000
DORA Capital - MWIG (Municipal)	1 000 000	4 000 000	5 000 000
Conditional Grants - Capital	41 887 000	46 471 000	56 338 000
Total Grants received	102 008 184	104 888 485	110 562 148

Conclusion

The 2013/14 budget for Mohokare Municipality is being compiled in the second year of the new council. The budget is the first tentative step in the turn-around of the municipality.

All efforts have been made, including a successful consultative period to ensure that this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and allows us breathing space to move forward.

Section 2 Budget Presentation

Past performance

During the past 4 years Mohokare received a disclaimer from the Auditor General. Mohokare Municipality has, in respect of the 2012-13 year budgeted for a surplus of R99 thousand. The adjustment budget reflects a deficit of R21.2 million.

Budget Summary

The budget for 2013/14 contains provision of R5.9m for free basic services. These services are off-set from the equitable share. Provision is made for 1 500 applicants

Economically Mohokare remains weak. Fundamentally we are an agriculture and tourist region which exists next to Lesotho. We have established a LED desk in order to maximise the potential of the municipality.

A stroll through town shows a slow deterioration of the business area. No less an authority than the Economist magazine has said "that even when an economy recovers there is generally a 18-24 month lag before cities feel it". In Mohokare's case that 18-24 has already lengthened to 26-48 months.

The continued poor state of the roads linking Zastron to Lesotho and Eastern Free State remains a problem.

Cash Flow

For the past years Mohokare was handicapped with a poor cash-flow. This has resulted in poor maintenance of especially the infrastructure. The pot-holes in the various towns are a matter of concern.

This problem is addressed in the following year's budgets as both the budgeted deficits and the poor cash flow as a result of a low collection rate, will be addressed. In order to achieve the budgeted results, the revenue enhancement programmes will need to be implemented with great urgency. This includes the roll-out of indigent benefits.

This budget is premised on an 83% payment level. This is based on the commitment made to the stake-holders during the community participation phase that the council will take strong measures to ensure that this target is achieved.

A concerted effort will also be made to collect long-outstanding debt, i.e. debt older than 6 months. On the strength of this an amount of R10 million is expected to be collected from the outstanding arrears of R75 million. Our credit control actions will be in terms of our policy, and will be targeted and backed by good data management.

Capital Budget

The capital budget for 2013/14 will total R44.8 million of which R42.9 million is funded from national grants and R1.9 million from the operating account.

Operating Expenditure

In his recent budget speech the Minister of Finance stated *"the vision for the future is abundantly clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high"*. This he followed up with the statement that *"we can do more – with less"*

The budgeted percentage salary increase of 6.9% is in line with the NT prescriptions. Any higher increase as a result of any bargaining council agreement will be attended to in the adjustment budget.

The following concerns needs to be raised:

1. The expenditure on salaries is, after the review 38% of the operating budget. This is a matter of concern, as our own generated funds is less than the salary bill, and as a result we are reliant on the equitable share to fund the balance of the salary bill.
2. We are not in a position to contribute to the infrastructure regarding capital expenditure. This brings about that our infrastructure to render basic services does not get the necessary attention it deserves.
3. The budgeted loss as a result of possible bad debts in respect of the current years billing, amounts to R4.7 million rand. This matter needs to be addressed early in the budgeted year.

Operating Revenue

Local government is in essence funded from three sources: assessment rates, revenues from trading services (the majority from Water in Mohokare's case) and transfers from national government.

The percentage revenue from the various sources is as follows:

Own generated income	39%
Operating Grants	38%
Capital Grants	23%
TOTAL	100%

The municipality is still greatly reliant on grants as set out above.

Tariff implications of the annual budget

The council has taken into consideration the concerns expressed during our stakeholder meetings and the finance department was instructed to review the draft budget.

Various savings and adjustments were made, and I am pleased to report as follows:

Salary increase is maintained as prescribed by National treasury.

Rates draft tariff increase of 10% is maintained.

Water draft tariff increase of 10% is maintained.

Sewerage and Refuse draft tariff increase of 10% is maintained.

The income in respect of the above services does not cover the expenditure.

Water Tariff

The water tariff increase for domestic consumers will be 10% on the basic charge and 10% on the consumption charge. For business consumers it will be 10% on the basic charge and also 10% on consumption.

The reasons for these increases above the guidelines as set by National Treasury, is that the water service is running at a loss and that a gradual increase in tariffs must minimize the loss in respect of future years.

This loss is generated even if no administration costs are charged out.

Technically, to balance the services in future years, an increase of some 12% in the tariff would be required.

Assessment Rates

The assessment rate will rise by 10% for domestic rate payers and 10% for businesses. There is a tendency for many municipalities to charge businesses as much as three times that of domestic rates. The major cities grouping have been petitioning SALGA and the relevant national department to allow the rate spread to be as much as four and possibly even five times.

The ratio in Mohokare will only be 1:1.4 for the future years. We need to encourage business development and relocation to Mohokare and not chase it away and contrary to popular opinion in the business community our assessment rate charge is actually very low.

Refuse and Sewer Tariff

The refuse and sewerage tariffs will increase by 10% for domestic and 10% for business. These are higher than the National Treasury inflation estimates of 6.9%.

Budget-related policies

The budget related policies, as attached formed the base of the proposed budget.

The salient points of the proposed budget are that the budget must be cash-funded, tariff adjustments must be fair, employee related costs must be all inclusive and the conditions of all provisions must be cash met where required.

Conclusion

The 2012/13 budget for Mohokare Municipality is the second budget of the new council. We still face many challenges, especially regarding efficient service delivery and cash-flow.

Notwithstanding the above this budget mitigates as far as possible the rate and tariff burden on our domestic and business customers and allows us breathing space to move forward.

In the re-drafted Credit Control Policy accompanying this MTREF for Council approval, are a number of specific amendments which have been made to minimise debt including:

- the reduction or discounting of interest charges in full and final settlement of arrears;
- the recovery of arrear rates from the tenant, occupier or agent of a property instead of the owner to an amount equal to the rent payable, as is allowed in the Municipal property Rating Act; and
- the steps to be taken to ensure that those employees in arrear with their account, will need to bring the account up to date.

Council has started to implement legal procedures, but this needs to be taken to a phase which can be described as the iron fist in a velvet glove approach.

I thank all the individuals and groupings that have taken the time to input into this budget. My thanks to the Municipal Manager and his staff for their hard work and dedication and my thanks to the Chief Financial Officer and his staff who put the budget together.

In the re-drafted Indigent policy, the household income is increased to R2570. This amount will be increased annually as per the CPI inflation index.

I HEREWITH PRESENT THE 2012/2013 BUDGET FOR APPROVAL.

PROPOSED

- [a]. That the annual budget of Mohokare Municipality for the financial year 2013/2014; and indicative for the two projected years 2014/15 and 2015/16, as set-out in the schedules contained in Annexure 1 be approved:
- [b]. Property rates reflected in Annexure 2 are imposed for the budget year 2013/2014.
- [c]. Tariffs and charges reflected in Annexure 2 are approved for the budget year 2013/2014.
- [d]. The following policies, as reflected in Annexure 4 are approved:
- Budget Related Policies
 - 1. Indigent Policy
 - 2. Rates Policy
 - 3. Credit Control Policy
 - 4. Tariff Policy
 - Other Finance Policies
 - 5. Banking, Investment and cash-management Policy
 - Gras related Policies
 - 6. Asset Management Policy
 - 7. Accounting policy
 - Other Policies
 - 8. Supply Chain Management Policy
 - 9. Fraud and corruption framework strategy
 - 10. Risk charter.
 - 11. Budget Policy
- [e]. That the Accounting Officer be delegated to adjust the Accounting and Asset Management Policy in accordance with the requirements of GRAP standards whenever necessary, and that such changes be incorporated into the next report of reviewed budget related policies.

PART 2 SUPPORTING DOCUMENTATION**Section 3 Annual budget tables**

The budget tables are as set out in the annexures

See Annexure 1

Section 4 – Overview of annual budget process**Annual planning processes**

The operating budget has been driven totally on the premise of cash flow and consumer affordability. Throughout South Africa there are municipalities in financial meltdown because of bad budgeting and by extension bad financial management. A bad budget automatically leads to increased non-payment and pressured cash flows. Throw in an economic downturn compounded by Eskom and the effect of greater than CPI remuneration increases and the probability is the municipality will be in serious financial difficulty very quickly.

Mohokare's operating budget for 2013/14 remains fixated on enhancing the cash flow and striving to increase our debtor payment ratio.

Budget Process 2013/14

The budget process followed the requirements of the MFMA. A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2012

The proposed budget was tabled in Council on 28 March 2013. A period of consultation then followed.

At the culmination of the process the Mayor must consider any representations and decide if any amendments should be made to the budget.

The final budget has to be approved by Council by the end of June 2013.

The Municipality's budget is prepared on a three year basis. This takes into account the National and Provincial three year allocations to the Municipality. The MFMA requires municipalities to prepare three year budgets to ensure more thorough financial planning and provide for seamless service delivery. Additionally the National Treasury Budget Circulars request local government to highlight their projected increases over the next three years to give some certainty to its customers.

The municipality sets out measurable performance objectives to link the financial inputs of the budget to service delivery on the ground. This is done in the form of quarterly service targets and monthly financial targets that are contained in the Service Delivery and Budget Implementation Plan (SDBIP). The plan must be agreed by the Mayor within 28 days of approval of the final budget and forms the basis for the Municipality's in year monitoring.

Section 5 – Overview of alignment of the annual budget with the Integrated Development Plan

Introduction

Municipalities are required to develop five year Integrated Development Plans which must be reviewed annually. It is also required that such plans must find expression in the Budget. The IDP and the budget are inter-related documents. The IDP is the budget in words, just as the budget is the IDP in figures. In this budget comprehensive efforts have been towards ensuring that the two documents are linked.

Problem Statement

It has been acknowledged that IDPs are still not particularly successful in setting out what is required on the ground. In the Provincial Governments Draft Strategic Plan the following was noted:

“After more than a decade of municipal integrated development planning, IDPs still include the capital spending priorities of municipalities alone. Furthermore, IDPs do not pay enough attention to the planning priorities and development strategies of provincial departments and relevant national departments. Similarly, national and provincial departments have not done enough to ensure that municipalities’ priorities are included in their annual performance plans and budgets.

Separate, uncoordinated planning and budgeting processes and different planning structures and mechanisms have contributed to a lack of integrated planning and delivery at grassroots level. In addition, national and provincial service delivery boundaries have not been fully aligned with municipal boundaries, leading to different sets of information. This often makes it impossible for the three spheres of government to communicate, plan and implement properly. In addition, departments are not organised on a regional basis, so municipalities find themselves communicating with different officials over time on the same issues.”

This is also acknowledged by the National Treasury who have embarked on creating a Standard Chart of Accounts (SCOA) for all municipalities which will have as an integral part, a section entitled “Projects” that allows for more meaningful financial reporting on the key programmes and projects intrinsic to the IDP.

The Mohokare Municipality has a vision which drives the Integrated Development Plan namely that of

“To be a community driven municipality that ensures sustainable quality service delivery applying principles of good governance”

Sustainable quality service delivery

Our greatest challenge has been to build our own absorptive capacity in order to ensure that we maintain a more than basic service delivery. Critical to this is ensuring that the infrastructure do not deteriorate further. Maintenance of existing assets is of primary importance.

The challenge of promoting Local Economic Development

The need for the diversification of the local economy through facilitating the emergence of previously underperforming sectors is an important catalyst for economic development. Our Local Economic Development strategy focuses on mainstreaming the previously disadvantaged people. Crucial to this is the need to work in partnership with relevant stakeholders in boosting employment and fostering SMMEs.

The challenge of ensuring municipal financial viability

A municipality lives and dies by its ability to balance needs with resources. Mohokare Municipality cannot generate sufficient resources to properly satisfy all its needs. Therefore those needs will have to be managed and dealt with in a financially sustainable manner. Promises of quick and easy solutions are simply lies.

a) The challenge of municipal transformation and institutional development

Staff development is crucial to meet the challenges of Mohokare and the new ethos of local government. The Employment Equity imperatives have to be assessed continually to ensure that Mohokare Municipality's transformation remains in line with the broader transformation agenda of South Africa. Included in this must be an accelerated emphasis on growing and developing our own timber. Mohokare does not have the luxury of competing in terms of salary and therefore our ability to attract qualified and quality staff is severely limited. We must therefore develop from within.

b) Public Participation

Public Participation is an important feature of any democratic environment. Although the legislative environment provides adequately for public participation, Mohokare Municipality is challenged to ensure that it continues to build on its successes over the last few years.

Section 6 – Budget related policies

The detailed policies themselves are included in this section of the budget documentation.

Budget Related Policies

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy
4. Tariff Policy

Other Finance Policies

5. Banking and Investment Policy
6. Loans Policy

Grp related Policies

7. Accounting Policy
8. Asset Management Policy

See annexure 4

Asset Management Policy

In terms of Section 63 of the MFMA the Accounting Officer must manage the assets of the municipality, and ensure that they are valued in accordance with the requirements of GRAP.

The municipality's Asset Management Policy provides for the measurement of all assets of the municipality. As indicated above, the standards continuously change, and we are currently in the situation of unbundling all infrastructure assets. This process is not yet complete, and it will be necessary to adjust the current measurement basis contained in the Asset Management policy e.g. useful lives, when it is completed but by 30 June 2011. It is therefore also a policy which changes continuously as GRAP standards change.

For this specific reason the following resolution has been included with the budget resolutions:

That the Accounting Officer be delegated to adjust the Accounting- and Asset Management Policies in accordance with the requirements of GRAP standards whenever necessary, and that such changes be incorporated into the next report of reviewed budget related policies.

Section 7: Rates and Tariff Schedule.

The rates, tariffs and charges for the 2013/14 budget are included in Annexure 2.

Section 8 – Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

FUNDING OF BUDGET (Cash-Flows)

FS163 Mohokare Supporting Table SA10 Funding measurement							
Description	MFMA section	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Funding measures							
Cash/cash equivalents at the year end - R'000	18(1)b	(5 091)	(1 413)	(1 384)	54	73	77
Cash + investments at the yr end less applications - R'000	18(1)b	(25 477)	(25 297)	(25 281)	(5 691)	625	920
Cash year end/monthly employee/supplier payments	18(1)b	(0.9)	(0.2)	(0.2)	0.0	0.0	0.0
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	1 899	843	871	1 235	1 637	2 138
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	(56.3%)	75.4%	1.3%	12.5%	1.6%	4.2%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	98.2%	102.4%	102.8%	99.5%	101.3%	101.3%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	29.2%	5.1%	4.8%	10.1%	9.9%	9.5%
Capital payments % of capital expenditure	18(1)c,19	104.9%	101.6%	101.6%	97.0%	97.2%	97.2%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a				100.0%	100.0%	100.0%
Current consumer debtors % change - incr(decr)	18(1)a	110.9%	0.0%	0.0%	354.4%	5.6%	5.7%
Long term receivables % change - incr(decr)	18(1)a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	1.0%	2.1%	2.1%	2.2%	2.2%	3.1%
Asset renewal % of capital budget	20(1)(vi)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
The above table is a summary of the matters in which the municipality needs to comply in order to prepare a funded budget.							
Cash & Cash equivalents at year end read with line 2, the cash & investments at year end.							
The cash equivalents of R54 000 includes a projected short-term loan of R5.8 million rand, which is included in the amount of -R5.691 million.							
Loans are not permitted as per the MFMA, and either the expenditure need to be decreased as per the budget, or further sources of revenue needs to be found.							

In terms of circular 42 and reading the information above, the proposed budget is not funded.

Section 9 – Councillor allowances and employee benefits

Refer to Annexure 2, 'Supporting Table SA22: Summary councillor and staff benefits' and 'Supporting Table SA23: Salaries, allowances & benefits (political office bearers/councillors/senior managers)' for further details.

Section 10 – Monthly targets for revenue, expenditure and cash flow

Disclosure on monthly targets for revenue, expenditure and cash flow is made in the following Supporting Tables:

‘Supporting Table SA25: Budgeted monthly revenue and expenditure’ reflects consolidated projections of revenue by source and expenditure by type for the budget year broken down per month for the budget year, and shown in total for the following two years.

‘Supporting Table SA26: Budgeted monthly revenue and expenditure (municipal vote)’ and ‘Supporting Table SA27: Budgeted monthly revenue and expenditure (standard classification)’ reflects revenue and expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly capital budget revenue and expenditure projections

‘Supporting Table SA28: Budgeted monthly capital expenditure (municipal vote)’ and ‘Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)’ show capital expenditure broken down per month for the budget year, and shown in total for the following two years.

Monthly cash flow projections

‘Supporting Table SA30: Budgeted monthly cash flow’ sets out receipts by source and payments by type for both operating and capital, broken down per month for the budget year, and shown in total for the following two years.

Budgeted household accounts

‘Supporting Table SA14: Household bills’ compiles the data for the monthly budgeted account for household income analysis, per small and large household.

Section 11 – Annual budgets and service delivery and budget implementation plans – internal departments**Adoption of the Service Delivery and Budget Implementation Plan**

In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget.

Contents of the SDBIP

The SDBIP must contain monthly projections of income and expenditure and quarterly projections of measurable performance objectives.

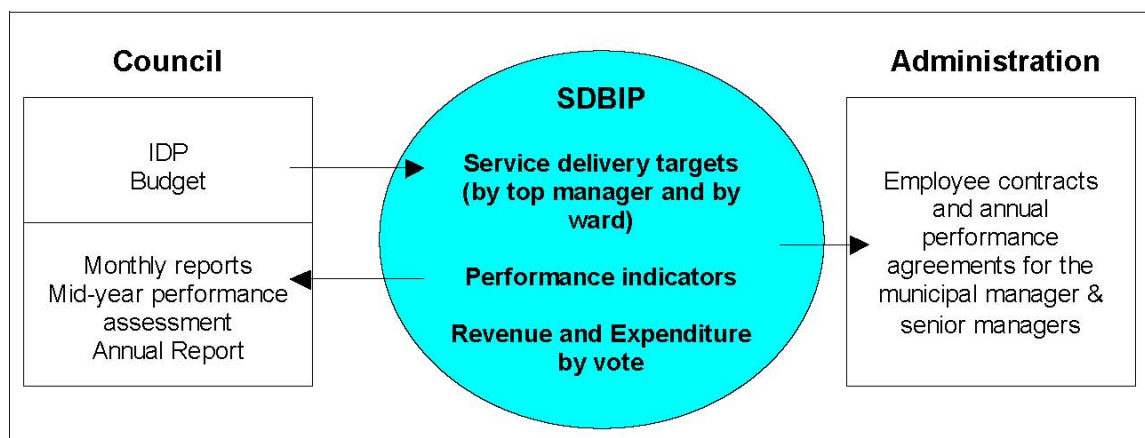
Some annual targets are still to be confirmed. These will be included in the final SDBIP.

SDBIP requirements

The SDBIP is essentially a business plan and is an integral part of the financial planning process. Although its approval is required after the budget, its preparation occurs in tandem with the budget process. The SDBIP is the connection between the strategic plan, IDP, budget and

management performance agreements, and includes detailed information on how the budget will be implemented, by means of forecast cash flows and service delivery targets and performance indicators. The schematic below sets out its importance as set out in NT circular 13.

Diagram SDBIP “contract”



National and Provincial Government refer to five national KPAs they regard as essential to Local Authorities meeting their responsibilities these are:

1. Institutional Transformation and Financial Viability
2. Environmental Planning and Management
3. Infrastructure Development
4. Community Services
5. Local Economic Development

In addition Local Government Turnaround Strategy (LGTAS) has identified six key thematic problem areas that need to be addressed in varying degrees by municipalities:

1. Service delivery
2. Spatial conditions
3. Governance
4. Financial Management
5. Local Economic Development
6. Labour Relations

Way forward

The existing and proposed performance indicators for 2012/2013 will be reviewed during the last quarter of the 2011/2012 SDBIP cycle and any amendments will be included in the SDBIP for the Mayor's approval.

In terms of section 53(1)(c)(ii) of the MFMA the comprehensive Service Delivery and Budget Implementation Plan will be approved by the Mayor within 28 days after the final approval of the budget.

Section 12 – Legislation compliance status

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

Municipal Finance Management Act - No 56 of 2003

The MFMA became effective on 1st July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Mohokare has been designated as a medium capacity municipality.

The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing. Mohokare was designated as a pilot municipality for the reforms and is engaged in a partnership arrangement with National Treasury.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

The budget preparation process

The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.

Overview

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

Budget preparation timetable

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).

Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the

municipal manager.

The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

Opportunity for revisions to draft

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.

Adoption of the annual budget

The Council must consider the approval of the budget by 1 June and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must

reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

BUDGET IMPLEMENTATION

Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.

The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

Requirements of the MFMA relating to the contents of annual budgets and supporting documentation

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. The various tables detailed in Section 4 and those additionally attached comply with the disclosure requirements.

Other Legislation

In addition to the MFMA, the following legislation also influences Municipality budgeting;

The Division of Revenue Act 2010 and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.

Section 13 Other supporting documents**Annexure 3**

Municipal Budget Circular for the 2013/14 MTREF - MFMA Circulars No. 66 & 67

Annexure 4 - Policies

Budget Related Policies

1. Indigent Policy
2. Rates Policy
3. Credit Control Policy
4. Tariff Policy

Other Finance Policies

5. Banking, Investment and cash-management Policy

Grap related Policies

6. Accounting Policy
7. Asset Management policy

Other Policies

8. Supply Chain Management Policy
9. Fraud and corruption framework strategy
10. Risk charter.
11. Budget Policy

Section 14 – Municipal manager's quality certification

An annual budget and supporting documentation must be covered by a quality certificate in the format as per page 68 of the Government Gazette 32141 – 17 April 2009.

QUALITY CERTIFICATE

I, Christian Thabo Panyani, municipal manager of Mohokare Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Christian Thabo Manyani

Municipal Manager of Mohokare Municipality (FS163)

Signature _____

Date _____